

CLEAN LOCAL ENERGY

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CITY OF BOULDER ENERGY FUTURE PROJECT:

Understanding the Money

THE FINANCIAL PICTURE

The Financial Forecast Tool (FFT) was developed in 2016 to inform the financial aspects of the city's exploration of municipalization. *How much money does the utility need to cover its expenses? What are the most significant costs for the utility? Can we still meet the financial charter requirements?* These are just some of the questions that need to be answered before a local electric utility can be created. The FFT is an interactive financial tool that is intended to offer a complete financial picture of the proposed utility. The FFT was designed to simulate standard industry practices in evaluating the utilities revenue requirement (earnings test), or the amount of money the utility needs to collect to cover its expenses as well as to understand the cash flow over time available to the utility. A revenue requirement consists of the following four major categories:

- **Debt Service:** money necessary to pay back anything borrowed through bonds
- **Operations and Maintenance:** costs for operating the system day to day
- **Payments in Lieu of Taxes (PILOTs):** payments to the city and other governmental organizations
- **Power Supply:** the cost of buying power to supply electricity

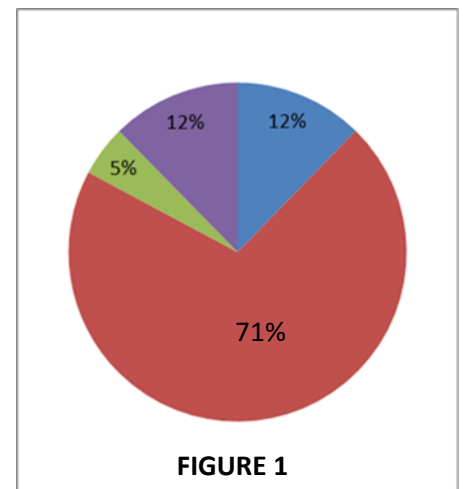


FIGURE 1 provides a breakdown of how these costs are likely to compare in a typical year. A detailed description of each is provided below. Details on the assumptions related to each of these cost areas have been updated since the 2013 modeling and can be found in the [New Debt and Financial Assumptions document](#).

This document is a high-level summary to help the community better understand the latest numbers. Unless otherwise noted, the descriptions included in this document refer to the [medium-case](#), or most likely scenario, which the city used to demonstrate its findings.

Debt Service

Because any debt would likely be amortized over 30 years, payments associated with debt would make up approximately 12 percent of the total ongoing costs of operating the utility each year. Utilities typically issue debt for investments in generation, transmission, distribution and other assets. Xcel Energy ratepayers already pay for debt in current energy bills to cover investments made by Xcel Energy in Boulder and throughout Colorado. Many of these investments were made to pay for new generation assets such as coal or gas plants that Xcel owns. While a new Boulder utility is not expected to own generation, it will have debt related to the purchase of the system assets and other expenses as detailed below. This means that the debt ratepayers will need to cover under a local electric utility would be comparable to what they are currently paying to Xcel Energy.

Throughout the city's analysis, Day 1 is defined as the day the city pays for the assets and begins to collect revenues. In the city's forecast, the debt service category includes the following components necessary to start and operate the utility:

Short-Term Bridge Financing, Pre-Day 1: This is a one-time expense to cover necessary start-up costs six months in advance of operating a utility.

Amount Forecasted	Term	Interest	When needed
\$8.5 M	6 months	8%	Approx. 6 months before Day 1

Day 1 Debt: The forecast includes both taxable and tax-exempt debt associated with Day 1. Acquisition costs and working capital (operating reserves) are funded with taxable debt, while repayment of the bridge financing and general fund would be tax exempt debt. The acquisition cost was modeled based on numbers provided by Xcel Energy and the City Charter limit on acquisition. The working capital is based on three months of operation and maintenance costs. The goal is for the utility to maintain a six-month operating reserve but to only debt fund three months and build the remaining amount over time.

Purpose	Amount Forecasted	Term	Medium Interest Level
Acquisition	\$150M/\$214M	30 years	5.5%
Working Capital (Operating Reserves)	Approx.\$30M	30 years	5.5%
Repayment of Short-Term Bridge Loan	\$8.5M	30 years	4.5%
Repayment of \$ borrowed from the General Fund during the exploration phase	\$3.2M	30 years	4.5%
Total Day 1 Debt	\$191.7M/\$255.7M		

Post-Day 1 Debt: Once the utility is operational, any subsequent debt issued would be tax exempt. Throughout the 20-year forecast period, a series of debt issues is likely to be needed to support the transition plan, including the separation of the system over three years; upgrading aging infrastructure (capital improvements); and undergrounding to improve reliability. The forecast includes the following:

Amount Forecasted	Purpose	Term	Medium Interest Level
Year 1 ¹ : \$17.8M	Separation ²	30 years	4.5%
Year 2: \$17.8M	Separation		
Year 3: \$17.8M	Separation		
Year 3: \$32.2M	Transition Plan/Start Up		
Year 4: \$14.8M	Capital Plan/Undergrounding		
Year 9: \$14.8M	Capital Plan/Undergrounding		
Year 14: \$14.8M	Capital Plan/Undergrounding		
Year 19: \$14.8M	Capital Plan/Undergrounding		
Total Post-Day 1	\$115.8M		

¹ Six months post-Day 1.

² The total separation cost is expected to be \$53.4M; the debt is spread over three years, the estimated time to complete the work.

	<p>What else is included in these debt amounts?</p> <p>The amounts modeled for the various debt issues are entered as the actual expected cost of the project inflated to the year the debt is issued. As is standard with all debt issues, additional costs are incurred when borrowing money which—when added to the project fund—equal the total bond value. These additional costs include:</p> <ul style="list-style-type: none"> • Financing costs – 1.5% of bond amount • Debt Service Reserve Fund –10% of bond amount • Capitalized Interest Fund³ – 18 months of debt payments on initial debt issue <p>How does the Debt Service Coverage Ratio (DSCR) factor in?</p> <p>The DSCR refers to the ratio of the net operating revenues (after expenses) to debt payments (principal and interest). In other words, a debt service coverage ratio of 1.25 (required by the City Charter) means that the net operating revenue can cover the debt payments and have an additional 25% of the debt payment amount left over. The FFT actually is coded to have DSCR level of 1.50, meaning that after the debt payment is made, an additional 50% of the debt amount is available as cash flow for reserves, capital projects or other purposes.</p>
Operations and Maintenance	<p>Ongoing operation and maintenance (O&M) costs are annual costs required to ensure a utility can operate and maintain the distribution system with a high level of reliability and efficiency. O&M costs include staff to manage utility functions—from linemen to customer service—as well as equipment needed to maintain the electrical system and funding for services like energy efficiency rebates as well as responding to emergencies. These costs were forecast at approximately \$20 million annually (2018 dollars) with a range of +/- 20%.</p>
Payments in Lieu of Taxes (PILOTs)	<p>This category includes two types of PILOT funds. The first is a transfer from the utility to the general fund which is limited by the City Charter to 4% of revenues to replace the franchise fee that had been paid by Xcel Energy (and collected from ratepayers). Because Boulder would no longer be receiving a franchise fee or collecting the Utility Occupation tax from Xcel Energy, this transfer, currently forecast at 3%, will continue to be made for general fund activities. The second is a fund dedicated to pay other governmental entities, such as Boulder Valley School District and Boulder County, payments in lieu of property taxes they would have otherwise received from Xcel Energy.</p>
Power Supply	<p>This category is the largest on-going expense (more than 2/3 of ratepayers' bills) typically incurred by a utility. This represents the cost to buy power and transmission services to supply electricity to the utility's service territory. The three months of operating reserve that is included in the initial tax exempt debt issue (see debt service category) includes three months of power supply, transmission, and operations and maintenance. Annual expenses associated with this category will be determined by power supply arrangements made by the city, and the source and location of that power. This "all in" cost for electricity is referred to as the "levelized cost of energy". The city is evaluating a number of power supply arrangements that address multiple priorities such as cost, renewables and overall emissions. Currently the model uses an annual cost of electricity of approximately \$100M in 2018.</p>

Version: October 2016

³ Capitalized Interest is only included in the initial acquisition debt issue as is standard practice for a new enterprise. Once the utility is operational, debt payments will not be deferred.